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## The truth about cigarette price increases in the UK

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Tobacco tax increases are one of the most effective means of reducing tobacco use<sup>1</sup> and consequently the tobacco industry has historically lobbied heavily against tax increases.<sup>2</sup> With the UK government due to announce its budget on 20<sup>th</sup> March 2013 and with standardised packaging of cigarettes also under consideration, industry lobbying on the illicit tobacco trade has intensified. In November 2012 Japan Tobacco International (JTI), which has approximately a 40% share in the UK market<sup>3</sup>, published a report, the Billion Pound Drop, on tobacco smuggling in the UK<sup>4</sup> which claims, *inter alia*, that tobacco tax increases fuel the illicit tobacco trade. Statements such as “the tax on a pack of Premium brand cigarettes... has risen by more than £1.... As a result, we have seen levels of non-UK duty paid consumption increase by almost 20% so far this year” litter the report despite Her Majesty’s Revenue and Custom’s data showing that levels of illicit are declining. JTI has reiterated these claims in its response to the last two budgets; its press releases on this issue in both 2012 and 2011 being entitled “JTI Response to the UK Budget...An open invitation to crooks, criminals and counterfeiters.”<sup>5</sup>

The essence of JTI’s claims is that tax increases, by substantially increasing the price of cigarettes, lead to an increase in the illicit tobacco trade. This letter addresses this issue by examining the extent to which cigarette price increases in the UK are attributable to tax increases or tobacco industry price increases.

We took brand specific cigarette price and sales data from Nielsen covering the period November 2006 to November 2009. The brands were categorised into four price segments (premium, mid, economy and ultra-low price brands), based on a review of the industry literature on brand segmentation. Weighted real average prices by brand segment were calculated using the data on price and market share for each brand from Nielsen and deflating the resulting price series using Consumer Price Index data from the Office of National Statistics.. We then calculated the total price increase over this period, and subdivided this into the portion attributable to tax and the rest.

Table 1 shows that across this 3-year period approximately half of the total price increase across all brands combined was due to the tobacco industry increasing prices. On premium brands this proportion reached 55%.

In short, therefore, industry claims about tax increases being responsible for massive price increases are highly misleading as they fail to acknowledge that half of the price increase is directly attributable to industry pricing. Moreover, should the industry be genuinely concerned that price increases fuel illicit it would surely not increase prices to this extent, particularly given it’s already massive profit margins.<sup>3</sup>

**Table 1: Real cigarette price increases from November 2006 to November 2009 by price segment**

<i>Brand segment</i>	<i>Total price increase</i>	<i>Tax increase</i>	<i>Non-tax increase</i>	<i>% price increase attributable to tax</i>	<i>% price increase attributable to industry price increases</i>
Premium	0.227	0.103	0.124	45%	55%
Mid-range	0.249	0.110	0.139	44%	56%
Economy	0.261	0.114	0.147	44%	56%
Ultra	0.090	0.050	0.040	56%	44%
All combined	0.121	0.063	0.059	52%	48%

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